



DEFENSE CONTRACT AUDIT AGENCY

REPORT NO. 6331-2003D17900002



April 11, 2003

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Defense Contract Management Agency Cleveland
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SUBJECT: Application of Agreed-Upon Procedures

REFERENCES: Contract No.: DTFA01-02-A-04074
Relevant Dates: See Page 8

CONTRACTOR: U.S. Airways
2345 Crystal Drive
Arlington, VA 22227

REPORT RELEASE RESTRICTIONS: See Page 9

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SUBJECT OF APPLICATION OF AGREED-UPON PROCEDURES

As requested by the Defense Contract Management Agency Cleveland, in a memorandum dated December 12, 2002, reference no. DTFA01-02-A-04074, and as discussed subsequently with your office, we applied agreed-upon procedures to U.S. Airways' proposed costs to determine if the costs incurred and billed follow the terms of the Other Transactions Agreement (OTA) on contract no. DTFA01-02-A-04074. The purpose of our engagement was to verify that the proposed incurred and billed costs follow the terms of the OTA.

SCOPE OF APPLICATION OF AGREED-UPON PROCEDURES

We have performed the mutually agreed-upon procedures enumerated below solely to assist you in evaluating whether U.S. Airways' incurred and billed costs according to the terms of the OTA under contract no. DTFA01-02-A-04074. This agreed-upon procedures engagement was performed in accordance with generally accepted government auditing standards. The sufficiency of the procedures is solely the responsibility of the requestor. Consequently, DCAA makes no representation regarding the sufficiency of the procedures described below, either for the purpose for which this report has been requested or for any other purpose.

The following agreed-upon procedures were applied:

- verified incurred costs follow the terms of the OTA; and
- Verified billed costs follow the terms of the OTA.

RESULTS OF APPLICATION OF AGREED-UPON PROCEDURES

This report pertains only to the performance of agreed-upon procedures to verify that the incurred and billed costs follow the terms of the OTA. We were not engaged to, and did not, perform an examination, the objective of which would be the expression of an opinion on the subject matter of this report. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you. Please refer to the Appendix for the details of our findings.

	<u>Claimed</u>	<u>Unsupported</u>	<u>Allowed</u>
Direct Labor	\$2,559,162	\$2,552,997	\$ 6,165
Overhead	974,049	974,049	0
GSC Training	335,693	0	335,693
GSC Travel	75,583	0	75,583
Security Vendors	2,689,534	1,613,479	1,076,055
Admin. Burden (G&A)	415,703	415,703	0
Cost of Money/Interest	70,364	70,364	0
Total	<u>\$7,120,088</u>	<u>\$5,626,592</u>	<u>\$1,493,496</u>

Incurred Costs:

Billed Costs

Direct Labor

a. Summary of Conclusions:

We take exception to the contractor's billed direct labor costs listed above for lack of support.

b. Basis of Contractor's Billed Direct Labor Costs:

The contractor billed direct labor costs from February 17, 2002 through December 16, 2002.

c. Agreed-Upon Procedure Evaluation:

Invoice Number	Employees Tested	Employees Verified	Employees Not Verified
11-0232-2002	402	17	385
12-0219-2002	226	8	218

We selected the two invoices above for testing and could only verify approximately four percent of all of the employees listed in support of each invoice. We requested labor rate information for the employees we could not verify, but we were not provided that information. We recomputed the billed dollars by multiplying category hours times the category rates.

We also could not verify the hours charged. The contractor's representative informed us that timesheets were not prepared. As direct labor support for each invoice, a labor distribution was prepared, listing employees, time charged, labor categories, and dollar totals for each category. However, we could not obtain source documentation from which to verify the hours in the labor distributions. Please see the Appendix for a listing of all costs by invoice.

d. Contractor's Reaction:

The contractor's representative does not concur with our findings.

e. Auditor's Response:

We disagree with the contractor's position because a contractor is responsible for accounting for costs appropriately and for maintaining records, including supporting documentation which is adequate to demonstrate that the costs have been incurred under FAA Cost Principles, Determining Allowability, T3.3.2.A.2.a.2. A labor distribution for numerous hours charged at remote locations without timesheets or a labor listing of rates and names of employees for hours charged are two instances of inadequate supporting documentation.

Overhead and G&A

a. Summary of Conclusions:

We take exception to the contractor's billed overhead and G&A costs for lack of support.

b. Basis of Contractor's Billed Overhead Costs:

The contractor billed overhead and G&A costs based on the following estimated overhead and G&A rates.

Indirect Expense Pool	Claimed Rate
Overhead Burden	
Administrative Burden	

Overhead was applied to direct labor and G&A was applied to the total cost before interest.

c. Agreed-Upon Procedure Evaluation:

We could not verify the reasonableness or allowability of overhead and G&A costs because the requested details of pool and base data to compute the indirect rates were not provided by the contractor. We separated overhead costs from the direct labor for each invoice. The requestor, Susan Hartman, confirmed that the contractor did not submit pool and base data with its proposal. Please see the Appendix for a listing of all costs by invoice.

d. Contractor's Reaction:

The contractor's representative does not concur with our findings.

e. Auditor's Response:

We disagree with the contractor's position because a contractor is responsible for accounting for costs appropriately and for maintaining records, including supporting documentation which is adequate to demonstrate that the costs have been incurred under FAA Cost Principles, Determining Allowability, T3.3.2.A.2.a.2. Claimed indirect costs based on monthly estimated costs without a computation of pools and bases for rates which are then applied to direct labor is an instance of inadequate supporting documentation.

Cost of Money/Interest on Prior Invoices

a. Summary of Conclusions:

We take exception to the contractor's claimed cost of money and interest costs.

b. Basis of Contractor's Claimed Cost of Money/Interest Costs:

The contractor claimed interest on invoices unpaid for more than 30 days. The contractor also claimed cost of money but applied it as interest on overdue invoices just as it has for claimed interest. In both cases, the rate is based on a monthly estimate of a current London-Interbank Offered Rate (LIBOR) rate applied to invoices billed but not paid within 30 days.

c. Agreed-Upon Procedure Evaluation:

Under FAA Cost Principle T3.3.2A.2.17, interest is not allowed, except for interest assessed by state and local taxing authorities. Please see the Appendix for a listing of all costs by invoice.

d. Contractor's Reaction:

The contractor's representative does not concur with our findings.

e. Auditor's Response:

The contractor's response is adequate for disposition.

Other Direct Costs

GSC Training

a. Summary of Conclusions:

We take no exception to the contractor's claimed \$335,693 in GSC Training costs.

b. Basis of Proposed Costs:

The contractor proposed claimed costs based on actual training costs for screeners.

c. Agreed-Upon Procedures Evaluation:

We reviewed the training costs for reasonableness and recomputed the costs based on the number of employees trained and the cost per training class.

GSC Travel

a. Summary of Conclusions:

We take no exception to the contractor's claimed \$75,583 GSC Travel costs.

b. Basis of Proposed Costs:

The contractor proposed claimed costs based on actual travel costs for screeners and their training.

c. Agreed-Upon Procedures Evaluation:

We reviewed the travel costs for reasonableness based on Joint Travel Regulations (JTR) and recomputed the costs based on the number of employees traveling and the cost per day. The costs meet the tests under reasonableness and JTR.

Security Vendors

a. Summary of Conclusions:

We take exception to the contractor's claimed security vendor costs for Argenbright Security Services for lack of support.

b. Basis of Proposed Costs:

The contractor proposed claimed costs based on actual security vendor costs for screeners.

c. Agreed-Upon Procedures Evaluation:

We sampled the screening bills and noted that support for many of the cost computations in the Argenbright bills is missing and was not provided when we requested it. As a result, we could not verify the labor rates to the contracts between US Airways and Argenbright. Of the few Argenbright invoices that did have supporting computations, we noted that Argenbright did not charge its contract rates for those airport locations and that no written record of renegotiated rates was provided upon our request. In some cases, Argenbright charged in excess of 60% of the contracted rates. Argenbright costs represent approximately \$1.6 million of the approximately \$2.7 million in total security vendor costs. The Argenbright contracts contain provisions to allow for audits of billings, records, and documents by the FAA or its agents.

We take no exceptions to the other security vendor costs. We selectively verified the labor rates in invoices of another security vendor to the security vendor contract provided by the contractor. Those claimed rates of Globe Security were verified to the rates in the security vendor contract.

d. Contractor's Reaction:

The contractor's representative does not concur with our findings.

e. Auditor's Response:

We disagree with the contractor's position because a contractor is responsible for accounting for costs appropriately and for maintaining records, including supporting documentation which is adequate to demonstrate that the costs have been incurred under FAA Cost Principles, Determining Allowability, T3.3.2.A.2.a.2. Claimed security vendor costs based on an invoice with no supporting documentation for the contract rates and other costs charged is an instance of inadequate supporting documentation.

Unbilled Costs

a. Summary of Conclusions:

We take no exception to the contractor's unbilled costs.

b. Basis of Contractor's Unbilled Costs:

The contractor incurred approximately \$217,307 in costs that were not billed because they were classified as out of the period performance February 17, 2002 through December 16, 2002.

c. Agreed-Upon Procedure Evaluation:

We could not verify the sum of the costs because no supporting documentation was found in the invoice folder. However, we reviewed some of the other invoices to confirm that the costs were outside of the period of performance. Our review did disclose that the selected costs were either performed prior to or after to the effective period of performance. We did not list these costs in the Appendix because they were not claimed and properly excluded as specified in Article 4 of the OTA.

OTHER MATTERS TO BE REPORTED

The contractor began performance of this contract with an insufficient number of its own security screeners. To compensate for its lack of screeners, it hired security vendors to provide screeners. Between February 2002 and October 2002, Argenbright became a major screener vendor for US Airways. Although Argenbright already had contracted with US Airways to perform screening services at specified labor rates, it charged rates significantly higher on invoices submitted to US Airways under this OTA. When we requested renegotiated screener contracts from US Airways to reflect the higher labor rates, we were told that none existed and that US Airways was relying on the clause contained in these agreements which extended the contracts based on continued performance by Argenbright. The contracts were originally negotiated as many as five years before February 2002 and no record was found to substantiate

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renegotiated rates for the respective locations. We recommend an audit of the Argenbright security vendor costs.

The results of the procedures performed were discussed with the contractor's representative, Brian Foont, Staff Attorney, who did not concur with our results on March 27, 2003.

CONTRACTOR ORGANIZATION AND SYSTEMS

1. Organization

U.S. Airways, a subsidiary of U.S. Airways Group, Inc. and organized under the laws of the State of Delaware, is a certified air carrier engaged primarily in the business of transporting passengers, property, and mail. U.S. Airways' executive offices are located in Arlington, Virginia. On August 11, 2002, U.S. Airways Group filed voluntary petitions for protection under chapter 11 of the United States Bankruptcy Code for the Eastern District of Virginia, Alexandria Division to restructure its debts under a plan of reorganization.

U.S. Airways and U.S. Airways Group, Inc. emerged from chapter 11 on April 1, 2003. The company reported a net loss of \$852 million for the nine months ended September 30, 2002.

2. Systems

- Accounting System U.S. Airways maintains an cost accounting system based on passenger miles, but it has not been reviewed by our office. The contractor's accounting period is from January 1 to December 31.
- Billing System We have not reviewed the contractor's billing system and related internal control policies and procedures.

DCAA PERSONNEL

Primary contacts regarding these agreed upon procedures: Telephone No.
William Smith, Senior Auditor
Sylvia Moore, Supervisory Auditor

Other contact regarding these agreed upon procedures:
Gerard E. Reichel, Branch Manager

FAX No.

E-mail Address

General information on audit matters is available at <http://www.dcaa.mil/>.

RELEVANT DATES

Date of Request: December 12, 2002
Date Request Received: December 17, 2002
Request Due Date: April 11, 2003

REPORT AUTHORIZED BY:

/signed/
Gerard E. Reichel
Branch Manager
Rosslyn Branch Office

REPORT DISTRIBUTION AND RESTRICTIONS

DISTRIBUTION

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RESTRICTIONS

1. Information contained in this report may be proprietary. It is not practical to identify during the conduct of the evaluation those elements of the data which are proprietary. Make proprietary determinations in the event of an external request for access. Consider the restrictions of 18 U.S.C. 1905 before releasing this information to the public.
2. Under the provisions of Title 32, Code of Federal Regulations, Part 290.7(b), DCAA will refer any Freedom of Information Act requests for reports received to the cognizant contracting agency for determination as to releasability and a direct response to the requestor.
3. The Defense Contract Audit Agency has no objection to release of this report, at the discretion of the contracting agency, to authorized representatives of U.S Airways, Inc.
4. This report was prepared using procedures agreed upon by the identified requestor. The reported findings do not include an audit opinion. The information contained in this report is intended solely for the use of the identified recipients, and should not be used by them or by others for any other purpose other than that for which the procedures were established.

CLAIMED INVOICES

APPENDIX

Invoice Number	FY 2002 Period	Direct Labor	Overhead	GSC Training	GSC Travel	Security Vendors	Finger-printing	Sub-Total	Admin. Burden	Cost of Money /Interest	Totals
04-0489-2002	02/17-03/16	\$343,710	\$136,456	\$68,215	\$22,778	\$124,192	\$0	\$695,351	\$0	\$0	\$ 695,351
	Unsuported	343,710	136,456	0	0	33,894	0	514,060	0	0	514,060
	Amounts Allowed	0	0	68,215	22,778	90,993	0	90,993	0	0	90,993
05-0252-2002	03/17-04/16	349,215	149,481	5,601	230	306,892	0	811,419	56,799	3250	871,468
	Unsuported	349,215	149,481	0	0	209,126	0	707,822	56,799	3250	767,871
	Amounts Allowed	0	0	5,601	230	97,766	0	103,597	0	0	103,597
06-0202-2002	04/17-05/16	353,313	117,180	21,261	233	751,281	0	1,243,268	87,029	6,024	1,336,321
	Unsuported	353,313	117,180	0	0	186,743	0	657,236	87,029	6,024	750,289
	Amounts Allowed	0	0	21,261	233	564,538	0	586,032	0	0	586,032
05-0252-2002	05/17-06/16	389,294	148,415	8,877	322	211,617	0	758,525	53,097	7,434	819,056
	Unsuported	389,294	148,415	0	0	147,285	0	684,994	53,097	7,434	745,525
	Amounts Allowed	0	0	8,877	322	64,332	0	73,531	0	0	73,531
06-0202-2002	06/17-07/16	327,331	123,888	43,166	9,734	640,936	0	1,145,055	80,154	8,506	1,233,715
	Unsuported	327,331	123,888	0	0	501,713	0	952,932	80,154	8,506	1,041,592
	Amounts Allowed	0	0	43,166	9,734	139,223	0	192,123	0	0	192,123
06-0247-2002	07/17-08/16	319,842	118,883	66,567	14,506	236,466	0	756,264	52,938	7,980	817,182
	Unsuported	319,842	118,883	0	0	219,580	0	658,305	52,938	7,980	719,223
	Amounts Allowed	0	0	66,567	14,506	16,886	0	97,959	0	0	97,959
07-0146-2002	08/17-09/16	234,423	91,453	33,781	8,361	28,021	0	396,039	27,723	8,161	431,923
	Unsuported	234,423	91,453	0	0	2,774	0	328,650	27,723	8,161	364,534
	Amounts Allowed	0	0	33,781	8,361	25,247	0	67,389	0	0	67,389
07-0157-2002	09/17-10/16	139,563	50,553	62,499	8,730	320,970	0	582,315	40,762	9,474	632,551
	Unsuported	137,163	50,553	0	0	278,770	0	466,486	40,762	9,474	516,722
	Amounts Allowed	2,400	0	62,499	8,730	42,200	0	115,829	0	0	115,829
08-0188-2002	10/17-11/16	73,687	27,048	16,749	7,444	31,902	0	156,830	10,978	9,843	177,651
	Unsuported	69,922	27,048	0	0	31,902	0	128,062	10,978	9,843	149,693
	Amounts Allowed	3,765	0	16,749	7,444	0	0	27,958	0	0	27,958
08-0189-2002	11/17-12/16	28,784	10,692	8,977	3,245	37,257	0	88,955	6,223	9,692	104,879
	Unsuported	28,784	10,692	0	0	1,692	0	41,168	6,223	9,692	57,083
	Amounts Allowed	0	0	8,977	3,245	35,565	0	47,787	0	0	47,786
Total Claimed		\$2,559,162	\$974,049	\$335,693	\$75,583	\$2,689,534	\$0	\$6,634,021	\$415,703	\$70,364	\$7,120,088
	Total Unsuported	2,552,997	974,049	0	0	1,613,479	0	5,140,525	415,703	70,364	5,626,592
	Total Amount Allowed	\$6,165	\$0	\$335,693	\$75,583	\$1,076,055	\$0	\$1,493,496	\$0	\$0	\$1,493,496